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STRATEGIC ALLIANCES AS CREATORS OF INTERORGANIZATIONAL VALUE

Master's Thesis

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Abstract

The research studies strategic alliances as creators of interorganizational value in the context of a medium-sized Finnish software firm in the real estate industry. The research questions are: 1) how to create value in strategic alliances and 2) how to identify suitable strategic partners and assure an optimal position in the value network.

The empirical research methodology is one where in-depth interviews are conducted with key personnel from the case company’s partnership stakeholders. In total, ten interviews were conducted from five different organizations with people ranging from ones more involved in the strategic planning to end customers of a partnership.

The findings of this thesis imply that the strategic, managerial and social factors are the most important ones to consider for companies willing to generate value from their alliances. Goals for the partnership should be established beforehand and those should be achievable. It is proposed that firms should look at possible partnering alternatives not only based on the potential benefits achieved from a two-firm level, but also from a network level. Establishing an alliance function is a proposed practice, because managing alliances requires different qualities from many other key functions of an organization. Especially, the alliance manager’s position as creator and retainer of trust should be recognized. The empirical findings of the thesis propose that trust is the most important determinant of strategic alliance success. Therefore, managers involved with managing alliances are recommended to aim for mutual trust in the partnership.

Keywords strategic alliance, value creation, value network

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Opinnäytetyö tutkii strategisia kumppanuuksia yritystenvälisen arvon luojina keskikokoisen, kiinteistöalalla toimivan ohjelmistoyrityksen näkökulmasta. Tutkimuskysymykset ovat: 1) miten luoda arvoa strategisissa kumppanuuksissa sekä 2) miten tunnistaa sopivia kumppaneita ja varmistaa mahdollisimman hyvä asema arvoverkossa.

Tutkimuksen empiirinen metodologia perustuu syvähaastatteluihin jotka tehdään kumppanuuden avainhenkilöiden kanssa. Yhteensä kymmenen haastattelua suoritettiin viidestä eri yrityksestä henkilöiden kanssa, jotka ovat eri tavoin tekemisissä kumppanuuden johtamisen ja loppuasiakkaan kanssa.

Opinnäytetyön löydökset viittaavat siihen, että strategiaan, johtamiseen ja sosiaalisiin tekijöihin liittyvät seikat ovat tärkeimpiä kun yritykset pyrkivät luomaan arvoa kumppanuuksiensa kautta. Kumppanuuden tavoitteiden on alusta asti oltava selkeitä sekä saavutettavia. Tutkimus ehdottaa, että yritysten tulisi punnita mahdollisia kumppanuusvaihtoehtoja ei vain kahden yrityksen välisten hyötyjen näkökulmasta, vaan koko arvoverkon näkökulmasta. Kumppanuustoiminnon perustaminen on yksi ehdotetuista tavoista varmistaa arvonluonti, koska kumppanuuksien johtaminen vaatii erilaisia kompetensseja yrityksen eri toiminnoista. Erityisesti kumppanuuspäällikön asema luottamuksen luonnissa ja sen säilyttämisessä on tunnistettava. Tutkimuksen empiiriset tulokset osoittavat, että luottamus on yksi tärkeimmistä menestystekijöistä strategisissa kumppanuuksissa. Siksi kumppanuuksien parissa työskentelevien suositellaan pyrkimään molemminpuolisen luottamuksen rakentamiseen kumppanuudessa.

Avainsanat strateginen kumppanuus, arvonluonti, arvoverkko

PREFACE

I would like to thank all the people that have contributed to my effort of writing this thesis. I've had the pleasure of enjoying the support of professors and experts, friends and family, helping me to finish a task that at times felt overwhelming.

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In Espoo, 7th July, 2014

CONTENTS

1 INTRODUCTION

1.1 MOTIVATION FOR THE RESEARCH

Firms today are facing increasing pressure to collaborate, network and enter into different forms of partnerships and strategic alliances. To be able to grow faster and smarter, firms are looking for partners more than ever (Hoffmann and Schlosser, 2001). The increasing number of strategic alliances in the new competitive environment combined with the speed of technological development in many industries has led to a shared opinion that the success of firms no longer depends solely on interorganizational abilities, but also on their ability to create competitive advantage through collaboration and strategic alliances (Das and Teng, 2000).

Competition is moving from the firm level to a supply chain level and, to achieve competitive advantage, companies are integrating their supply chains. This leads to new possibilities for companies to utilize and combine their resources and competencies within their business network (Whipple and Frankel, 2000). Firms rarely have all the resources they need to compete in rapidly changing markets (Ireland et al., 2002), which makes partnering a viable strategy especially for smaller companies in high-technology industries.

Although alliances fail more often than not (Dyer et al., 2004), the potential for value creation encourages firms to form alliances at a growing rate. According to Ireland et al. (2002), strategic alliances may create two types of advantage. First, companies may combine resources to complement each other and thus create more value. Second, companies may create more value by effectively managing their alliance portfolio and leverage resources across firm boundaries. Therefore, a firm that can learn and develop superior alliance management competencies may create competitive advantage.

SMEs (Small and Medium-sized Enterprises) usually have tight resources and simultaneously have to compete against large, established companies in global markets (Hoffmann and Schlosser, 2001). In Finland, only 0.2 % of companies are large companies with over 250 employees (Suomen Yrittäjät, 2013). This represents a great challenge for growth-oriented companies. One proposed solution to this problem is value-creating networks. Kothandaraman and Wilson (2001) argue that companies need to move from competing on the firm level to competing on a network level, and that companies in value networks can create superior customer value by combining their core capabilities.

The reason for the conduct of this thesis is the realization of the increased level of networking in the Finnish real estate industry. (KTI Kiinteistötieto Oy, 2010)

1.2 SCOPE AND RESEARCH QUESTIONS

A lot of the existing literature on strategic alliances focuses on the relationship and the value added to the firms engaging in strategic alliances (e.g. Barney, 1991; Das and Teng, 2000; Doz and Hamel, 1989; Gulati, 1995; Williamson, 1985). This literature often fails to elaborate on the effect of partnering on the value created or the value perceived by the end customer.

Traditional industrial approaches focus on adding value by either improving functionality or by reducing costs, without considering collaborative activities such as adding value through value co-creation, partnering or networking. Defining the value created to the end customer is an especially relevant point in partnerships between firms engaging in business-to-business sales, where the effects of improved value affect more than one company. It is no longer enough to understand a firm's position in their competitive landscape, but to view the firm as part of a dynamic environment, where each firm fits to a business network. (Kothandaraman and Wilson, 2001)

Strategic alliances can take various forms and can be categorized differently in dissimilar contexts. In this thesis, strategic alliances and partnerships are defined as follows:

- Strategic alliances are voluntary arrangements between firms involving exchange, sharing, or co-development of products, technologies or services. (Gulati, 1998)

- Partnerships are purposive strategic relationships between independent firms who share compatible goals, strive for mutual benefit, and acknowledge a high level of mutual interdependence. (Mohr and Spekman, 1994)

In this thesis, the terms *collaboration*, *partnering*, *partnership*, and *strategic alliance* will be used interchangeably. The aim of this thesis is not to clarify or compare terminology, but to examine the relationship between collaborative efforts and the value created from such activities. Since the context of this thesis involves value creation in a business-to-business context, the terms *value creation* and *value co-creation* will be used interchangeably.

The theoretical part of this thesis combines research on value creation with research on strategic alliances. Literature on value creation sheds light on how value is created to both partners and end customers, which is the basis for securing a leading position on the market. It is proposed that finding such specific partners that add value to both the firm and its end customers can be sources of competitive advantage.

This raises the question of how to succeed in establishing alliances that create value for all stakeholders. The primary research question in this thesis concentrates on discovering how to make the best use of the alliance. It is formulated as the following:

1. How to create value in strategic alliances?

The secondary research question aims at determining evaluation methods and selection criteria to make sure that companies engaging in strategic alliances find their desired partner and therefore the optimal position in the value network and finally the market. The question is formulated as the following:

2. How to identify suitable strategic partners and assure an optimal position in the value network?

The primary research question will be answered based on literature and by conducting interviews. First, the aim is to research fundamental theories on strategic alliances and then to focus on alliance literature where value and the value created to stakeholders is a core concept. Second, literature on value creation and its different aspects are studied, in order to better understand the term mostly covered in marketing literature (as proposed by Vargo and Lusch, 2004) and its implications for the success and management of strategic alliances. Third, the empirical part of this thesis aims to shed light on value creation in alliances through a qualitative analysis of in-depth interviews of key personnel.

The second research question bases its suggestions on theory and the interviews. Based on literature and a qualitative analysis of the interviews, the aim is to provide best practices for companies in finding suitable partners for strategic alliances, with the aim of assuring an optimal position for value creation.

Since the focus in this thesis is on creating value through alliances, the selection of eligible references will focus on, although will not be limited to, alliance literature where the value added to stakeholders is a core element. The empirical context involves Rapal Oy, a Finnish company offering consulting services and software solutions for the built environment, which recently has made distinctive efforts in finding partners and establishing alliances as part of their growth strategy.

2 LITERATURE REVIEW

2.1 STRATEGIC ALLIANCES AND PARTNERSHIPS

This section examines literature on strategic alliances and partnerships, clarifying terminology and the focus of this research. The reasons for engaging in alliances and the range of different forms of alliances are introduced, followed by an examination of the phases of alliance evolution. Later in the chapter, success factors of strategic alliances are studied. The aim is to gain insight into the reasons why companies enter into alliances and, to explain why some alliances succeed and others don't.

2.1.1 Introduction to strategic alliances

Research and literature on strategic alliances is extensive, focusing on different aspects, such as reasons and motives for engaging in alliances (Barringer and Harrison, 2000; Das and Teng, 2000; Dyer and Singh, 1998), examining different types of alliances (Khanna, 1998; Varadarajan and Cunningham, 1995) and the phases of alliance evolution from the formation and management to the termination of the partnership (Doz, 1996; Ireland et al., 2002; Kale et al., 2001; Spekman et al., 1998).

A strategic alliance between two firms is a deliberate decision to cooperate, serving a common goal of jointly creating products or services by sharing resources and competences (Gulati, 1998). The reasons for entering into alliances may vary, but the common theme seems to be that companies seek to create and capture more value by neutralizing threats, complementing their businesses and networks, sharing resources and knowledge, developing competencies through learning and gaining access to international markets (Doz and Hamel, 1989). According to the definition of partnering introduced above (Mohr and Spekman, 1994), the reasons why firms enter partnerships also have to do with seeking mutual benefits, realizing shared goals and sharing mutual efforts. In the case of both strategic alliances and partnerships, partnering companies need to have some common strategic goal or agenda in order for the alliance to work, and in order to access shared resources and gain some of the potential advantages of alliances.

There are many underlying approaches to explain why companies engage in strategic alliances. Some of these explain how to utilize concepts and frameworks in order to manage alliances towards success (Bronder and Pritzl, 1992). *Transaction cost economics* suggests that firms enter into alliances mainly for direct economic reasons, specifically with the aim of minimizing the sum of production and transaction costs (Kogut, 1988). Transaction cost theories explain why firms would enter into alliances, trying to minimize costs when seeking new opportunities out of their own scope and when looking to serve market segments that are too small for them to pursue on their own (Doz and Hamel, 1989).

While traditional joint ventures were established with the intent of minimizing costs and risks when entering new or unexplored markets, *resource- and knowledge-based views* rationalize alliances with other reasons such as strategic and social factors (e.g. Eisenhardt and Schoonhoven, 1996; Mowery et al., 1996). Firms in vulnerable strategic positions, e.g. when competing in new or highly competitive markets, seek to establish alliances to fulfill strategic needs and to utilize social opportunities (Eisenhardt and Schoonhoven, 1996). Therefore, the reason for two firms entering into an alliance is more about strategic compatibility or fit, rather than economic reasons as in traditional joint ventures (Doz and Hamel, 1989). Dyer and Singh (1998) suggest that the relationship between two firms should be the unit of analysis when studying the competitive advantage of firms. They argue that interorganizational assets, sharing knowledge, complementing resources and capabilities and managing the alliance are four sources of competitive advantage.

More recently, advancing the social perspectives on alliances, theories related to networks have emerged (e.g. Dyer and Singh, 1998; Gulati et al., 2011; Jarillo, 1988; Peppard and Rylander, 2006). Gulati (1998) goes beyond the dyadic view of the relationship between two partnering firms and introduces a *social network perspective* on strategic alliances. He proposes that firms enter into alliances using social networks and argues that social networks can have a prevailing effect on the success and performance of alliances. Studying networks of relationships provides insight into the profitability of firms, how they interact and gain access to resources, knowledge and technology.

Some scholars have chosen to approach strategic alliances from a *value perspective* (Kale et al., 2001; Zajac and Olsen, 1993). This has provided a different view on alliances, questioning older theories and examining fundamental issues, e.g. regarding the value creation in strategic alliances overall (Chan et al., 1997; Doz and Hamel, 1989). Literature with a value perspective has provided alliance research with a better understanding on the total benefits of alliances, explaining more intangible aspects and benefits of strategic alliances. The potential value of an alliance might be impossible to estimate, may be unclear even after the alliance is formed and may be associated with lowered risk, reduced uncertainty or unforeseen network related effects. (Doz and Hamel, 1989)

2.1.2 Range of strategic alliances

This section presents different types of strategic alliances and why they are formed. To understand how value is created through alliances it is necessary to examine literature and explain why companies enter alliances in the first place. To reach their business goals, companies engage in different forms of alliances with varying structures. These varying structures will also be covered in this section.

2.1.2.1 Motives for engaging in strategic alliances

Transaction costs are costs that arise from activities that are needed to make an exchange, e.g. writing and governing contractual agreements or (Das and Teng, 2000). According to *transaction cost economics*, if there were no transaction costs associated with exchange, there would be no need for hierarchical organizations, joint ventures and mergers and acquisitions (Williamson, 1985). Because strategic alliances are perceived as a cooperative form somewhere between market exchange and organizational hierarchy, then such alliances take place when transaction costs are high enough, but not so high that the costs would encourage firms towards vertical integration (Gulati, 1995). But the transaction-cost theory emphasizes cost minimization and does not take a stand on the interdependence of two partnering firms exchanging products or services with the aim of creating joint value (Zajac and Olsen, 1993).

Another reason for entering into strategic alliances lies in firms' resources. In this context, strategic alliances are agreements with the objective of gaining advantage for both cooperating firms. It has been proposed that the reason for strategic alliances is the potential for joint value creation by pooling together firm resources. In other words, firms try to find the optimal resource combinations for value creation. According to the *resource-based view*, valuable resources are rare and difficult to imitate and substitute (Barney, 1991), and therefore, obtaining such resources is essential for the survival and competitive advantage of firms. Strategic alliances are a strategy for firms to access resources otherwise unavailable to the firm. (Das and Teng, 2000)

Also aligned with the resource-based view, Varadarajan and Cunningham (1995) offer a useful synthesis by dividing strategic alliances into two broad categories; firms that commit similar resources to the alliance strictly for economic reasons, or firms that join forces to complement each other's resources in order to create competitive advantage. Additionally, strategic alliances between firms that have complementary abilities are divided into two categories. First, each partnering firm may create competitive advantage for the alliance by using its core capabilities to focus on one or several specific value chain activities. Second, partnering firms may combine their efforts to achieve better performance in specific parts of the value chain and thereby gaining a stronger position in the value chain. (Varadarajan and Cunningham, 1995)

Doz and Hamel (1989) argue that there are three main purposes of alliances. First, making allies of potential competitors and firms with complementing offerings can be an effective strategy for neutralizing threats. Second, firms in an alliance can combine their unique resources, favorable market positions, knowledge and other abilities, which together may create a lot more value than they would separately. Third, alliances provide firms with a channel for learning new skills and competencies from their partners, which would otherwise be very costly, lengthy or practically impossible to develop. Firms can then leverage what they've learned outside the business are of the alliance and gain even more advantage. (Doz and Hamel, 1989)

In the context of organizational learning, the motives for alliances can be divided into exploration and exploitation (March, 1991). Exploration means looking for new opportunities by investing in innovation and research, taking risks, developing new skills and entering new business areas. Exploitation means performing such activities that aim to increase efficiency, lower costs and improve and leverage existing skills. When alliances are an integral part of a firm's strategy, alliances can be seen as co-evolving with the firm's strategy. Thus, alliance motives may evolve from exploitation objectives to exploration objectives at any time and vice versa. (Koza and Lewin, 1998)

Creating value through partnering and collaboration can also be seen as a reason for entering alliances. In today's dynamic environment more and more successful companies are not just adding value through a specific activity or part of a value chain, but reinventing value completely by competing on a different level. The focus has shifted from the company and industry level to a level of value-creating systems. In these systems, companies co-create value with all stakeholders; suppliers, alliance partners and customers (This will be further discussed in section 2.2.3). (Normann and Ramírez, 1993)

Managing a firm's business networks has been recognized as an effective way of creating or finding new ways to create value. A firm's alliance portfolio and the positioning within the business network may greatly influence the performance of the alliance (Gulati, 1998). Thus, pursuing a strategy of creating more value by can in itself be a motive for engaging in alliances.

It has also been argued that alliances have become more common in technology-intensive industries and new motives for entering into alliances have therefore emerged. New motives include the need to manage risks and costs associated with innovating as well as the need to enter new markets faster to cover for increases in development costs and higher risk (Mowery et al., 1996).

Additionally, Barringer and Harrison (2000) criticize many of the theoretical rationales for interorganizational relationships by arguing that none of them are holistic and that they explain only a narrow view of alliance formation. The authors also highlight human factors, such as social ties, personal gains and even luck, as reasons for alliance formation. There are numerous motives and concrete reasons for firms to engage in alliances. The lists of motives for entering into strategic alliances that Varadarajan and Cunningham (1995, p. 285) and Barringer and Harrison (2000, p. 385) provide, are extensive and indicate that there are a lot of advantages to be gained through alliances. The authors (Varadarajan and Cunningham, 1995) therefore argue that most of the underlying motives for entering into strategic alliances can broadly be interpreted as direct growth strategies for firms.

Table 1 - List of motives for entering into strategic alliances. (based on Varadarajan and Cunningham (1995) and Barringer and Harrison (2000)

Motive	Explanation
Market entry and market position-related motives	Market access, barriers to entry, defending and enhancing position
Product/service-related motives	Completing and expanding offering, differentiation and adding value
Product/market-related motives	Entering new product markets or market segments
Market structure and competition-related motives	Reducing threats and raising barriers to entry
Resource use efficiency and cost-related motives	Lowering production and marketing costs
Resource extension and risk reduction-related motives	Pooling of resources and reducing risks due to uncertainties
Skills enhancement-related motives	Learning new skills and enhancing current skills

2.1.2.2 Types of strategic alliances

There seems to be a consensus on the range of different types of alliances, from hierarchical joint ventures and vertical integration to loose contractual agreements and partnerships. The forms of diverse arrangements that are in between have been much discussed and argued about, which only demonstrates the complexity and variety of strategic alliances. (Barringer and Harrison, 2000; Das and Teng, 2000; Gulati, 1998; Hagedoorn, 1993)

Firms face a wide spectrum of choices when selecting partners and structuring alliances. At one end, there are hierarchical structures such as joint ventures, in which partnering firms establish a separate function with shared equity to operate as a venue for joint efforts. At the other end one can see more loosely controlled contractual agreements such as alliances with no shared equity and less hierarchical controls. (Gulati, 1998)

Varadarajan and Cunningham (1995) offer a simple two-way conceptualization of strategic alliances based on structure. First, partnering firms may commit a certain amount of equity, resources and technology to form a separate unit, i.e. a joint venture. Second, partnering firms may form an interorganizational entity with similar commitments, but without shared equity. This structure makes the alliance flexible and adaptable and therefore more suitable for fast evolving and less predictable markets. (Varadarajan and Cunningham, 1995)

Hagedoorn's (1993) findings from researching alliances in technological industries and sectors are similar. He concludes that contractual agreements are more suited for arrangements that are less complex, and that complex arrangements involving several objectives will call for much more control and governance by partners. According to the author, despite numerous motives for strategic alliances, technology- and market-related motives dominate. The conclusion is that technology-related motives dominate in high-tech industries and that mature and consolidated markets are dominated by market-related motives. (Hagedoorn, 1993)

In hybrid alliances, both firms have equal goals of both exploration and exploitation. The firms aim at simultaneously leveraging existing skills and abilities while also looking for opportunities for creating new value within the alliance (Koza and Lewin, 2000). Figure 1 shows the spectrum of different types of alliances. The figure can be read from the left so that the amount of rigid and very structured alliances (e.g. joint venture) changes to more flexible and contract-based learning alliances as one moves to the right.

Figure 1 - Spectrum of interorganizational relationships. (based on Barringer and Harrison (2000), Gulati (1998), Hagedoorn, (1993))

2.1.3 Strategic alliance success factors

2.1.3.1 Strategic decisions and preparing for alliance

The *resource-based view* has been proposed as one of the most important theories in understanding the competitive advantage of firms. Strategic alliances are a way for firms to access resources that are otherwise unavailable to the firm (see section 2.1.2.1). Obtaining the needed resources and retaining them for future competitive advantage is important for the value creation and success in strategic alliances (Das and Teng, 2000). Compared to legal property-based resources such as human resources, patents and contracts, knowledge-based resources (i.e. a firm's intangible know-how and skills) are much harder to protect. Knowledge-based resources are vulnerable to be transferred, possibly by mistake, to partners. Losing such resources is therefore a large concern in interorganizational relationships (Hamel, 1991). Therefore, one of the most important success factors of alliances is the ability of firms to obtain resources from partners while protecting the intangible knowledge of the firm (Das and Teng, 2000).

Hamel et al. (1989) argue that learning from one's partner is one of the main objectives of strategic alliances. The authors also take a stand on the question of "stealing" skills from a partner; capturing some of the knowledge and skills of partners is not deceitful thinking. That is the whole idea of alliances while both partners are consciously committing to the alliance. The challenge however, is to avoid transferring all of the skills and knowledge to the partner while still committing resources to the alliance with the goal of creating advantage for both firms. That is why companies need to develop safeguards and secure their defense against such unintentional transfers in learning alliances. (Hamel et al., 1989)

According to research, previous experience clearly affects the outcome of alliances and firms learn to create more value through such experience. Therefore, the success of an alliance depends on the alliance experience and alliance capabilities of the firm. According to Mowery et al. (1996), learning and knowledge transfer is more effective in equity joint ventures contra non-equity, contract-based alliances. There is also evidence that firms may learn more through joint venturing experience and that learning is not accumulated from licensing alliances where there are no or very few collaboration activities. The conclusion is therefore that the potential for learning is greater and more important in alliances with bilateral and fairly ambiguous or incomplete contracts (both partners are required to provide resource in order to jointly do research, marketing, production etc.). (Anand and Khanna, 2000)

As stated in section 2.1.2.1, alliances can be seen as co-evolving with the firm's strategy in any of the two directions of exploration or exploitation, and the two activities need to be balanced (March, 1991). Levinthal and March (1993) argue that firms need to do enough exploitation in order to survive today and constantly engage in exploration activities to ensure future competitiveness. The balancing of exploration versus exploitation activities becomes a success factor when firms engaging in an alliance have or evolve to having different objectives. It has been suggested that there needs to be symmetry in the strategic intent of firms that engage in alliances. As alliances evolve, either firm may develop or choose to move in either direction. Such an asymmetry increases the chance of failure for alliances. (Koza and Lewin, 2000)

Information on the potential disadvantages of alliances is also important to consider before making commitments to an alliance. Some of the disadvantages include loss of knowledge to potential competitors, costly delays and the need for abundant resources, failure of the alliance including both financial and organizational risks, opportunism, loss of decision-making power, culture clashes and loss of flexibility and risk of lock-in. Since SMEs are characterized by tight resources and have less room to make mistakes, weighing advantages against potential disadvantages in alliances is especially important. (Barringer and Harrison, 2000)

Hoffmann and Schlosser (2001) studied the success factors of strategic alliances in 164 SMEs and point out the importance of the early initiation phase in entering strategic alliances. The authors find that the most important success factors assessed by SMEs are (1) emphasizing the potential for joint value creation, (2) agreement on clear and realistic objectives, (3) top management support, (4) contributing specific strengths and (5) precise definition of rights and duties. In total six of the top eight success factors are related to the early phases in the development and formation of strategic alliances. The strategic intent and reasoning for entering the alliance, finding suitable partners and structuring the alliance is the key to establishing a strong foundation. If these early phase activities are not successful the future of the alliance is threatened. The authors also point out that soft factors such as trust and commitment are important, but not sufficient. The conclusion is that alliance competence relating to hard facts (e.g. strategic planning, strategic compatibility, governing mechanisms etc.) especially in early phases of alliance evolution is important for SMEs. (Hoffmann and Schlosser, 2001)

Another view in the context of strategic intent in alliances is very different. According to research, by Dyer et al., (2004), 40-55 per cent of alliances fail prematurely. One of the reasons proposed is that alliances are formed without even considering the option of acquiring. If firms would consider the fact that alliancing means not acquiring, and would weigh the benefits of both strategies, a much larger portion of alliances would end up being successful. It has been proposed that managers need to analyze a set of key factors in order to decide whether to choose between alliancing and acquiring. These factors include the synergies and resources that the firm wishes to create and combine and determining the competitive factors in the target market. Based on these factors the firm must make informed decisions and weigh the collaborative competencies the firm possesses. (Dyer et al., 2004)

2.1.3.2 Management and performance of alliances

Despite the consensus that early activities have a great influence on the success of alliances, an important view is that alliances cannot be planned and decided completely beforehand and that, because of their novelty, many activities can be learned only by doing (Doz and Hamel, 1995). The nature of the management of strategic goals versus day-to-day operations is therefore a major issue. The implementation and management of alliances needs to be linked with the strategic rationale and goals of the alliance. (Spekman et al., 1998)

For stable markets, efficiency-related factors tend to dominate, and are more likely to affect the outcome of alliances. In industries where differentiation and rapid change define the competitive landscape, marketing activities are critical to the success of strategic alliances. In this kind of an environment, the marketing function has to assume a strategic role: the success of the alliance may well be defined by marketing's ability to scan the external environment to identify critical trends. Such abilities are useful also for examining and interpreting the internal activities of alliance partners, allowing the focal firm to better understand their partners and successfully internalize their skills and capabilities. (Hamel et al., 1989; Varadarajan and Cunningham, 1995)

Overcoming alliance management challenges depends largely on the existence of a dedicated alliance function and the capabilities of firms to coordinate alliance activities. To coordinate activities and learn from alliances, it has been suggested that a formal alliance structure is essential. ”Companies that make proactive investments in establishing a formal structure and systems to manage their alliance activity are better positioned to enjoy greater success and value creation with their alliance portfolio" (Kale et al., 2001 p. 464). E.g. an alliance team could be formed to facilitate the learning from alliances and make sure that alliance experience and know-how is leveraged in future alliance commitments. (Kale et al., 2001)

According to Dyer et al. (2001), companies with a strategic alliance function have a much higher success rate (25 %) than companies without such a function. Critical alliance management competencies include managing knowledge, coordinating activities, increasing external visibility and performance accountability and monitoring. Having a dedicated alliance function to manage and solve these issues can greatly influence the success of alliances. Companies with a separate alliance function generate more value and in time, will enjoy the reputation of a preferred partner. The challenge is creating such a function; companies need to be large enough or engage in several alliances to cover such an investment in resources, time and especially people. According to Ireland et al. (2002), transaction costs relating to alliance management are higher for companies without an alliance function. (Dyer et al., 2001)

Alliance success depends heavily on the management and competence of firms to organize, coordinate and lead the strategic alliance. Besides alliance early phase success factors, also senior management support, the ability to meet alliance performance expectations as well as clear goals along the evolution of the alliance, have been proposed as important alliance success factors. An important finding is that partner firms in successful alliances share a great deal of positive reinforcement and competency attributes such as people skills. (Whipple and Frankel, 2000)

It should be expected that SMEs would actively engage in strategic alliances as a means for growth, patching resource shortages with partner's resources and secure their present viability and competitiveness in the future (Hoffmann and Schlosser, 2001). But Hagedoorn and Schakenraad (1994) find that firm size directly affects the propensity of firms to actively seek out and engage in alliances. Even when trying to factor out the large firm bias, i.e. the proposition that larger firms have more resources to use for interorganizational collaboration and therefore seem to be more active collaborators, the authors still find that larger firms partner more often. Larger firms have a wider scope and offering, often operate in several different marketplaces and therefore have more possibilities and potential for cooperating with others. Alliances may demand a lot of resources for the administration, governance, monitoring and support from staff and management, which usually is a challenge for smaller firms. Also, smaller firms have higher barriers to entry while not having the advantage of economies of scale. (Hagedoorn and Schakenraad, 1994)

Alliance management skills include balancing the learning or acquiring of skills from partners with securing that the intangible knowledge and skills are not transferred to partners. Also, a mindset for recognizing and taking into account cultural differences in international alliances, the attitude to continuously learn and improve on the performance of the firm as well as the skill to determine the intent of the alliance and learning from alliance experience are part of top management skills. Finally, the search and selection of partners by evaluating the target firm's reputation, partnering skills and technological assets is a main managerial skill. Carefully securing this kind of solid foundation for alliances is one of the most important skills and success factors for alliances and their managers to possess. Additionally, making sure the foundation is agreeable by all parties, communication and personal relationships, and the monitoring and control of alliances are critical skills of alliance managers. (Ireland et al., 2002)

The competency and experience of the alliance manager is also a major success factor. Promoting any successful line manager to alliance manager may prove very risky, since managing alliances requires a much wider set of skills. Alliance managers need to have superior abilities compared to line managers, and should be adept at navigating and utilizing the informal networks and connections in alliances. (Spekman et al., 1998)

For SMEs, previous experience is essential for the success of alliances. Strategic planning and preparation for alliances are essential, but to reach the full potential, the alliance needs to be developed. This creates demand for sufficient alliance management, so that firms may learn from previous alliances. This is not easy for small companies lacking much of the competencies and experience needed. Research suggests that SMEs underestimate many of the success factors, and that a more realistic attitude is the key to improve the management of strategic alliances in SMEs. (Hoffmann and Schlosser, 2001)

For SMEs, a minimum requirement for firms trying to enter foreign markets is to find a local partner. One specific finding very encouraging to SMEs, is that setbacks and failures in establishing successful international alliances should not discourage firms to continue with the strategy. The most important success factor in such cases is the ability of firms to learn from their mistakes and overcome the challenges they have experienced. It has been found that firms that stick to the plan and do not give up easily will eventually be successful and the resources invested will be outweighed by the benefits of the alliance. (Lu and Beamish, 2001)

2.1.3.3 Social factors

Trust has been argued as one of the most important factors of alliance success (Gulati, 1995a; Laaksonen et al., 2008; Mohr and Spekman, 1994; Whipple and Frankel, 2000). According to Mohr and Spekman (1994), the most important factors for alliance success are "trust, willingness to coordinate activities and the ability to convey a sense of commitment to the relationship." Furthermore, trust may be created through a positive status and reputation of the firm, which makes the social interaction equally important. The social advantages such as reputation, status and relationships of the firm depend largely on top management and key personnel in the firm (Eisenhardt and Schoonhoven, 1996). By creating social advantages and reputation as a top-quality partner, firms can attract more potential partners. This is similar to Whipple and Frankel (2000), who recognize two different aspects of trust; *character-based trust* such as integrity, honesty, openness and morale, and *competence-based trust* such as trust in the competence and knowledge, business sense, alliance management and interpersonal skills of the alliance partner.

In section 2.1.3.1, the strategic intent of alliances was discussed and it was concluded that one of the major reasons for alliances is the will to learn from partners. At the same time, there is a real challenge for managing alliances. If the intent of both partners is to learn and capture some of the skills and knowledge of the other firm, conflicts may arise and distrust will grow to be an issue (Hamel et al., 1989). When choosing partners, decision-makers should also take into account the level of interorganizational trust. Therefore, special carefulness is needed in relationships with low levels of trust and potential for opportunistic behavior. Ways to increase mutual trust includes e.g. sharing information, committing to tasks in the long-term and interacting regularly with partners. (Laaksonen et al., 2008)

2.2 THE VALUE CONCEPT

Literature and research on strategic alliances has been very focused on the strategic management field of research (e.g. Barney, 1991; Das and Teng, 2000; Doz and Hamel, 1989; Williamson, 1985). Although value creation seems to be one of the main reasons for entering into alliances (see section 2.1.1), the value concept has been mostly studied in the marketing field of research (e.g. Lepak et al., 2007; Stabell and Fjeldstad, 1998; Vargo and Lusch, 2004). This chapter examines value creation in a business context and how value creation can be seen as the ultimate reason, motive or rationale for entering into strategic alliances. The ways in which companies capture and appropriate the value created will also be examined. Value capturing and appropriation play a big role in determining the end value that companies receive from alliances. Since networking and collaboration can be ways of increasing value creation and innovation (Adner and Kapoor, 2010; Lin and Chen, 2006), the role of networks and ecosystems as enablers or modes of value creation is also discussed.

The concept of value has a long history and there exists a wide range of definitions explaining what value is. Classical economics divides it into use value, the worth of a good or service to the customer and therefore it is subjective, and exchange value, the price of a good or service at the point of exchange and defined by the market. According to Porter (1985), value means the amount that a customer is willing to pay for the product or service that the supplier provides. This highlights the meaning of value in a business context, that is, the amount customers are willing to invest in a specific product or service. Therefore, value is also relative and depends on the buyer or customer (Lepak et al., 2007).

2.2.1 Value creation and co-creation

According to Lepak et al. (2007, p. 182), "value creation depends on the relative amount of value that is subjectively realized by a target user (or buyer) who is the focus of value creation and this subjective value realization must at least translate into the user's willingness to exchange a monetary amount for the value received". In other words, customer value is created when the value or worth of the product or service is perceived high enough (by the customer) to make an exchange.

There are two basic processes in strategic alliances, namely value creation and value appropriation; the total value created is first determined by how sound the competitive rationale of the alliance is, and secondly on whether the collaborating firms manage to combine their complementary capabilities effectively (Hamel, 1991). Creating value refers to innovating, producing goods and services and delivering them to customers, while appropriating value refers to extracting the profits, i.e. capturing the value created (Mizik and Jacobson, 2003). This is in line with the findings in sections 2.1.3.1 and 2.1.3.2, that is, alliance management and success can be roughly conceptualized into two phases; (1) the early design and strategic decisions in alliances and (2) the management and joint performance of activities in alliances.

In explaining the role of value creation in a business context, Porter (1985) further elaborates on the term by introducing it in the form of value chains, describing the fundamental role of the value chain in identifying sources of competitive advantage. The value chain implies the specific activities a firm performs in order to create value for the customer. But the focus is changing from value chains to value creating systems and networks. "In a world where value occurs not in sequential chains but in complex constellations, the goal of business is not so much to make or do something of value for customers as it is to mobilize customers to take advantage and create value for themselves" (Normann and Ramírez, 1993 p. 69).

Varadarajan and Cunningham (1995) offer a broad conceptualization of the potential advantages in strategic alliances. Firms can achieve competitive advantage through the pooling of skills and resources, i.e. creating more value through strategic alliances. Figure 2 shows how two partnering firms can create more value by pooling valuable resources together and jointly perform value chain activities, thereby achieving competitive and positional advantage through lower costs and/or differentiation. If the pooled resources are rare, valuable, inimitable and non-substitutable by competitors and competitors' networks, the partnering firms can achieve sustained competitive advantage. This leads to better performance in the long-term for both the strategic alliance and the partners themselves. (Varadarajan and Cunningham, 1995)

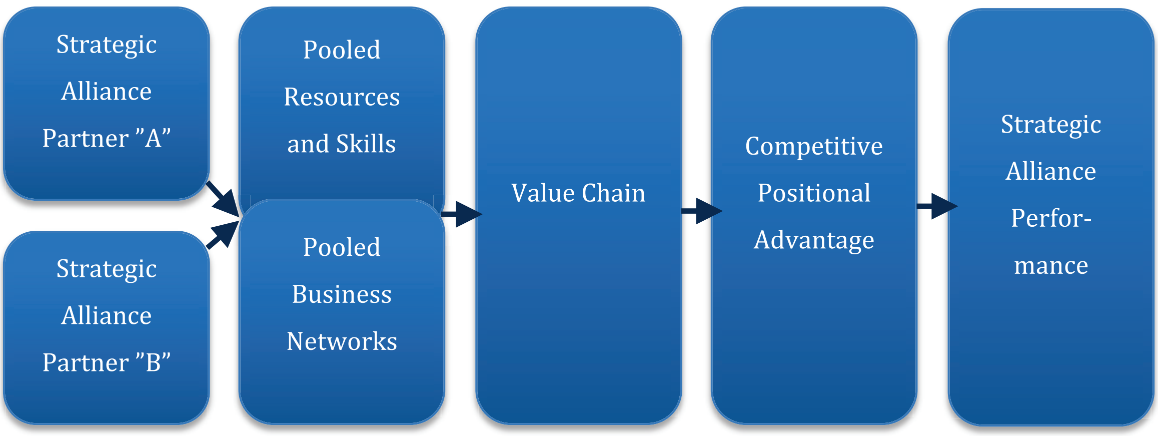

Figure 2 – Achieving competitive advantage through strategic alliances (Varadarajan and Cunningham, 1995).

Firms are increasingly adding value to customers through knowledge-intensive services and through their networks (Fjeldstad and Haanæs, 2001). Stabell and Fjeldstad (1998, p. 413) claim that the "alternative forms of value creation is a prerequisite for expressing how firms differ in a competitive sense." The authors extend Porter's (1985) value chain framework and introduce the concepts of value shop and value network. According to the authors (Stabell and Fjeldstad, 1998), the value chain framework is suitable for describing traditional manufacturing companies, but does not explain the underlying value logic in many service-oriented industries. Value shop is a form of value creation in organizations where value is created by performing activities and applying resources in a way that solves the customer's problem in the best way possible, describing a more flexible and less predefined way of performing a service (e.g. professional services in medicine, law and engineering). The value network on the other hand describes value creation in organizations that mediate and facilitate technology and exchange between customers, thus providing the connections and benefits in its network to all its customers (e.g. airlines, telecoms, banks, stock exchanges, insurers, postal services). (Stabell and Fjeldstad, 1998)

Along with globalization, the rise of the Internet and the resulting change in business markets, also the value that firms are able to provide to their customers is changing. This creates the need for firms to organize themselves for new kinds of value creation and value delivery to customers. The implications of value migration for established firms are of great importance. New firms with new and innovative ways of creating value are able to capture value (i.e. "value migration") from large established companies and change industries completely. (Sharma et al., 2001)

The effect of business networks on value creation has been proven to be significant. The value created in strategic alliances depends on the network embeddedness of the two partnering firms. The experience, learning and ties from the relation of two firms may positively influence the total value created. Similarly, business asymmetry between two partners has a negative effect on the total value created. (Gulati and Wang, 2003)

Something else that affects value creation is whether the company and customer are exchanging goods or services. Vargo and Lusch (2004) introduced their service-dominant logic (S-D logic) to marketing, complementing the goods-dominant logic (G-D logic). From this major development in marketing research it has further been argued that while service is a process including interaction between the customer and the service provider, then value is created by both customer and service provider (Vargo et al., 2008). Hence, from a service perspective, value creation should always be considered as value co-creation. This is an important view on value creation especially knowledge-intensive firms, in which a company can be viewed not only as a supplier of products, but also as a service provider that facilitates the value creation that happens at its customers. The S-D logic states that the customer is always present in the creation of value and is therefore the best evaluator of the value created. A good example of this is a company offering software-as-a-service (SaaS-tools); the value is not created merely from the purchase of the software, but the customers create value for themselves, in their own way, through the use of the tools provided. (Lusch et al., 2010)

2.2.2 Value capturing and appropriation

On the other side of the value concept is value capturing or appropriation. While value creation may be the rationale and a requirement for strategic alliances, value capturing and appropriation is a major success factor in strategic alliances. Value capturing refers to the way in which companies learn and make use of the created value, turning operations into revenue. Organizations that create new value will lose or have to share this value with other stakeholders, such as employees, competitors, or society (Lepak et al., 2007 p. 187). Lepak et al. introduce *value slippage* to describe how many companies fail to capture value that otherwise would have been significant.

Hamel (1991) suggests that there are two means of value appropriation; bargaining and competitiveness. Firms have to bargain over the economic benefits that are received from jointly performed activities. Bargaining power is a direct result of the dependency on the partner, a question of who needs whom. To increase bargaining power, firms should learn to internalize the skills of their partners, and thereby increase the partner's dependency on the firm. At the same time, the firm can increase its competitiveness and attractiveness as an alliance partner. Out-learning the partner decreases the dependency and increases the bargaining power of the firm, also strengthening the firm's position in its business network and market. (Hamel, 1991)

The costs of coordinating activities as well as appropriating concerns may influence the formation of alliances. The more coordination costs and appropriation concerns there are, the more hierarchical strategic alliances tend to be and the more hierarchical controls are applied. Firms try to control opportunism, costs, their appropriation concerns and by forming hierarchical structures and setting the rules of the game. (Gulati and Singh, 1998)

Firms emphasizing value appropriation over value creation tend to experience increases in stock return. Creating value by developing new, innovative and superior products, especially in high-technology industries, does not necessarily lead to success for the product or the firm. Firms do not secure themselves enough against imitation, value migration and knowledge transfer. Research shows that a shift in focus from value creation toward value appropriation has a positive effect on stock market returns and attractiveness for investors. (Mizik and Jacobson, 2003)

Furthermore, creating and appropriating value are two very different processes. Value creation happens collectively between partners and is the foundation for success. But value appropriation can be viewed as an individual competition over the created value, especially in coopetition (competitive collaboration). One conclusion is therefore that individual decisions inevitably lead to changes in the evolution of the relationship. If a firm collaborates with firms that can be seen as competitors or potential future competitors in some aspects, value appropriation becomes the main success factor in the long-term. (Ritala and Hurmelinna-Laukkanen, 2009)

Customer satisfaction in collaborative relationships has been proven to depend largely on the value appropriated and value creation is only perceived as positive if firms are able to appropriate enough value. To secure a larger share of the value created, suppliers need to emphasize open and frequent communication to ensure customer satisfaction. Relational trust has a positive effect on value creation through improved benefits, lower costs and decreased risk of opportunistic behavior. (Wagner et al., 2010)

2.2.3 Networks and ecosystems as creators of value

Strategic alliances have become a source of competitiveness and many of the skills essential to success are found outside the boundaries of the firm (Doz and Hamel, 1989). In today's fast-changing competitive markets, the fundamental logic through which value is created is changing. The thinking that value is created through value chains bases its suggestions on traditional industrial economies. In this respect, value is created through the positioning of the firm on the value chain where it can be most successful. Today, globalization and new technologies are changing markets, and strategy is no longer about positioning on a fixed value chain, but on navigating within value-creating systems. The key task or activity then becomes to manage, design and reorganize for success in these complex business systems. (Normann and Ramírez, 1993)

Social networks can be invaluable sources of information for the firms embedded in them, influencing the frequency and quality of relationships formed. This enables firms to find new opportunities with potential alliance partners. As Gulati (1998 p. 311) states: "A firms portfolio of alliances and its network position in an industry can have a profound influence on its overall performance."

Furthermore, networks are a very interesting research issue from a value-based perspective. A value network connects a firm's customers, creating value to every customer and partner that is a member of the network. Connecting actors in a market in this way may create big opportunities for firms to learn, integrate knowledge and innovate. Firms that manage to create such value networks around them can utilize the information in the network for the benefit of all members, potentially creating even more value. The challenge is to create a large enough network and to reach a critical mass so that members of the network actually benefit from being part of it. (Stabell and Fjeldstad, 1998)

The competitiveness and performance of firms can be better understood by studying how they are embedded in networks of relationships. Strategic networks may provide access to information, resources, markets and technology, which can bring advantages such as learning and economies of scale, fulfilling firms' strategic goals, e.g. lowering risks and costs. As networks may provide potentially significant success, it is important to be aware of the potential disadvantages and dark side of networks. Networks could result in firms being "locked" in unproductive relationships or being unable to partner with other firms. (Zaheer et al., 2000)

Networks may also positively influence the performance of new products. Resource complementarity, market orientation and information within a network may be the source of success for many companies. Lin and Chen (2006) and Varadarajan and Cunningham (1995) suggest that networks can be a source of competitive advantage for firms that are able to commercialize and exploit the pooled knowledge within their networks. The challenge is managing such networks and how to access knowledge across interorganizational boundaries.

A good example of a large value network is the mobile ecosystem, consisting of a number of different firms (infrastructure, content providers, content aggregators, software developers and device manufacturers) that co-create value. Successfully analyzing and understanding the sources of value in the network is a major success factor for firms. (Peppard and Rylander, 2006)

Möller and Rajala (2007) propose a categorization of three different types of business nets. Depending on the value creational logic, the nature of business nets differ from efficiency-related and established nets to new business nets that aim to create new business models and concepts and better technologies in order to innovate and change markets altogether. Firms need to identify and analyze the type of net they are part of in order to understand how value is created. The authors argue that managing a firm's business net according to its characteristics has an effect on the success of the firm. (Möller and Rajala, 2007)

Networks are defining today's markets and to survive, firms must learn how to establish and secure their position as a part of the value network. Firms need to adapt faster, offer viable value propositions to the customers and take into account other members of the value network that affect the delivery of value of the firm to customers. (Lusch et al., 2010)

2.3 CREATING VALUE IN STRATEGIC ALLIANCES

"Strategy is the art of creating value" (Normann and Ramírez, 1993, p. 65). Value creation is an essential part in many strategic management views. For example, resource-based view scholars Barney & Hesterly (2008) argue that different bundles of resources can be found in companies operating in the same market, and that some resources are valuable and rare and therefore a source of competitive advantage. As mentioned in section 2.1.2.1, one of the main reasons for alliances is the potential for joint value creation by pooling together firms' resources.

Hamel (1991) argues that interorganizational learning is a success factor in itself. Outlearning one's partner decreases the dependency of the firm on the partner, increasing the bargaining power of the firm and therefore the ability to capture more value. If an alliance is very long-lived, it may mean a failure to learn for one or both of the partnering firms.

In strategic alliances, pooling resources, skills and business networks creates value and leads to competitive advantage. Value creation in strategic alliances may lead to competitive positional advantage, which in turn leads to better alliance performance (Varadarajan and Cunningham, 1995). Alliance performance leads to better reputation as a partner and hence, an even stronger social position in the business network. This in turn, may open up new possibilities to collaborate with potential new partners (Eisenhardt and Schoonhoven, 1996).

A value perspective may provide great insight into the success factors for strategic alliances as well as the effects of partnering on the value created for the partnering firms. Additionally, the value perspective also explains the effects of partnering on other stakeholders in the value network, that is, the firm's suppliers, possible other partners and most importantly, the end customers. The table below summarizes common research topics on strategic alliances. The first three columns are based on Gulati (1998, p. 312). In the fourth column are summarized the perspectives of value creation and their potential insight on the strategic alliance research topics.

Table 2 - The added insight of a value perspective on research of strategic alliances; based on (Gulati, 1998)

Research topic	Dyadic perspective	Network perspective	Value perspective
Formation of alliances, strategic decisions and selection of partners	Financial, technological and marketing motives, resource and knowledge complementarity	Network factors, creating new opportunities and finding potential partners	Value creation, learning and knowledge acquisition, value migration
Managing and organizing for alliances	Managing transaction costs and resources, coordination and organizing for success	Managing alliances and business networks	Value creation and appropriation in alliances and networks
Evolution of alliances; social, competitive and strategic factors	Social and behavioral dynamics between partners	Competitive dynamics between alliance constellations and networks	Evolution of customer value affecting the dynamics of alliances and networks
Performance and success factors of aliances	Measuring of performance, reasons for terminating alliance, partner	Membership in networks influencing the success and performance of alliance	Value creation and appropriation including all stakeholders in alliances and networks
Competitive advantage in alliances	Pooling of knowledge, resources and skills	Pooling and utilizing knowledge, resources and skills within the network	Creating superior customer value and sustained positional advantage through utilization of partners and networks

Through their study, Chan et al. (1997) find that alliances create great value for the focal company. They find that companies engaged in alliances showed better performance than their competitors within five years of the formation of the alliance. Koza and Lewin (1998) argue that partnerships may create value for all stakeholders either through exploration, which creates value especially for the customer, and through exploitation, which creates value especially for the firm and its partners. Nielsen and Gudergan's (2012) findings are similar; strategic fit has two components in the case of competences. First, competence similarity is a measure of strategic fit and has a positive effect on success of firms when exploring new products and services. Second, the authors conclude that competence similarity does not necessarily mean a good fit for companies looking to exploit existing resources, connections and partners for cost benefits (ibid.). Evaluating resource and competence fit is important to ensure value creation in strategic alliance. From a risk versus benefit standpoint, evaluating potential partners may be done by evaluating; (1) the operating risk that the partner would provide to the firm and (2) the perceived added value to be gained from collaborating with the partner (Kothandaraman and Wilson, 2001).

The opportunities to engage in strategic alliances depend also on the technological position of the firm. Mapping the technological positions of firms in a network may help in understanding how value is created in networks and how to position the firm (Stuart, 1998). Peppard and Rylander's (2006) conclusions are similar. They argue that analyzing the value network helps firms to understand their competitive ecosystem, especially in digital services where there are no physical products. Peppard and Rylander (2006) propose a simple framework for doing the analysis:

1. Define the network
2. Identify and define network entities
3. Define the value each entity perceives from being a network member
4. Identify and map network influences
5. Analyse and shape

The alliance function plays a vital role in creating value in partnerships. The role of the function is to coordinate, communicate in alliances as well as to learn and leverage the gained experience. According to research, investing in an alliance structure leads to higher performance and financial gains (Kale et al., 2001; Kale et al., 2002). Anand and Khanna (2000) find that companies learn from their experiences, and that partnership experience and competence in managing alliances are the biggest factors and drivers of alliance success.

Utilizing the value network is becoming a determinant of success for many companies. Fjeldstad and Haanœs (2001) argue that companies are more and more creating value to their customers through networks, which enables them to answer to a broader set of different demands. In making partnerships successful Sharma et al. (2001) point out the role of marketing. With the help of marketing, companies may analyze networks and gain understanding on how value is created to the customer, i.e. beyond the focus of value creation taking place between two partnering companies. Varadarajan and Cunningham (1995) also point out that marketing is important when doing market analysis and seeking suitable partners when trying to enter foreign markets.

When partnering becomes a part of a firm's strategy, understanding the benefits of learning and experience is important. Also, while utilizing the experience from current relationships within the network, firms need to simultaneously explore new opportunities and seek new potential partners (Gulati et al. 2009). In creating superior value for customers, the meaning of collaboration has increased. Customers today are more and more demanding; they are more informed, and demand bundles of products and services. The only way for companies to survive in this kind of environment is to collaborate. In an interview for the big think forum, Gulati (2010) argues that by concentrating on core competencies and outsourcing the unnecessary, resources are freed up to manage, coordinate and putting together the pieces that are needed to make the customer happy. For companies, this means more focus on managing different suppliers, partners and networks. For example, Apple Inc. is producing only 10 % of the product themselves, because they have been able to shrink their core and expand their periphery, meaning the scope of their business area and market segments. For scholars, this means an increased importance of research on business networks. (Gulati, 2010)

Furthermore, the research on supply chain management should be closer to research on marketing and value creation. Lusch et al. (2010) argue that value is created through customer involvement and by utilizing existing value networks, rather than creating value through dyadic partnerships and by managing sequential value chains.

3 METHODOLOGY

The thesis was conducted in the following steps:

1. Review of strategic alliance and value-based literature.
2. Planning and conduct of in-depth interviews with selected key personnel and analysis of results.
3. Discussion and writing of conclusions and suggestions for Rapal.

3.1 DATA COLLECTION

The theoretical material used in the literature review was found through searching various search words, such as “strategic partnerships”, “strategic alliances”, “value creation”, “value creation in strategic partnerships”, “strategic partnerships in SMEs”, “trust in strategic partnerships” etc. in Google Scholar. Databases that provided the majority of the material used in this research included Emerald Management, Emerald Insight, EBSCOhost Business Source Complete, Elsevier SD Backfile Business and Freedom Collection, and ProQuest ABI/INFORM Complete New Platform. The databases were accessed through Aalto University's NELLI portal. In many cases, new articles were found through the reference lists of useful articles already found.

For the empirical data collection, a method of in-depth interviews with key personnel was used. The method is proposed useful in cases where physical and psychological proximity to the detail of the subject matter is required (Carson and Coviello, 1996). The main advantages of such a method are that the interviews provide much more detailed information than other possible data collection methods such as surveys (Boyce and Neale, 2006). Also, an in-depth interview can often be conducted in a more relaxed atmosphere, and people may feel more comfortable having a conversation about their experiences rather than be filling out a survey (ibid.). Barriball and While (1994)have also pointed out that personal interviews, as opposed to surveys, can provide much better response rates and ensure that the respondent does not receive any assistance while answering the questions.

As Boyce and Neale (2006) recommend, the questions asked from key personnel were open-ended and the researcher could alternate among the previously prepared questions and themes if he felt so. In this sense, the interviews conducted can be viewed as semi-structured. The semi-structured interview technique is one where the interviewee's responses guide the contents of the interview (Barriball and While, 1994). The technique can be viewed as part of the in-depth interview method, where three different approaches, depending on the extent to which interviews are standardized beforehand, can be differentiated (informal conversation interviews, semi-structured interviews, and standardized open-ended interviews) (The World Bank, 2011). According to Barriball and While (1994), the semi-structured interview technique is especially suitable for the exploration of the perceptions and opinions about complex and sometimes sensitive issues suits this case very well. Also, whenever the interviewees have differing professional, educational and personal histories, a standardized interview schedule is hard to gather and semi-structured interviews can be recommended (ibid.).

3.1.1 Interviewees of key personnel

Boyce and Neale (2006) suggest an interview process with key personnel should start from listing out the stakeholders engaged in the project, after which one should determine what information is needed from whom. To begin the empirical research, the researcher thus listed all stakeholders involved in Rapal's strategic partnership development: consultants, partner firms, management at Rapal, etc. The company's partnership with Senate properties was seen as the most significant partnership by Rapal's management and therefore many stakeholders were identified with relations to this partnership. The researcher then assessed what information he would need from whom, and dropped out the consultants used in the project because of their lack of ability to comment how things actually went between the partnering firms.

The list of key personnel involved the following people:

- Rapal board members

- Rapal management
- Senate Properties management
- Customers of Senate properties and thus, customers of the partnership between Rapal and Senate properties
- People from the Ministry of Finance, the owning stakeholder of the partnership between Rapal and Senate properties
- Other partners of Rapal and their key personnel

In total, 13 interview requests were sent, out of which 10 agreed to participate to an interview. However, all key stakeholder firms had representatives among the interviewees. The interviews were conducted in October-November 2012.

3.1.2 Questionnaire

Designing the interview began by listing a number of key themes and questions, to which theory and initial discussions with Rapal staff guided the researcher. These themes include:

1. Fit of Rapal offering to the partnering firm and reasons the enter strategic partnerships
2. Adding value in strategic partnership
3. Possible common product and service development efforts
4. Organizing for the partnership and evolution of the partnership
5. Values, norms and practices in the partnership
6. Trust and expectations in partnership
7. Drivers for partnership success

Since a total of 5 organizations were interviewed, open-ended questions relating to the themes listed above were altered to involve the organizations in question. The main themes and different questions are listed in Appendix A. Since the native language of all interviewees is Finnish, the questionnaire was translated after first discussing the contents of the interviews to be conducted with Rapal management.

After choosing the major themes and the relating open-ended questions, a list of probes, as suggested by Boyce and Neale (2006) (e.g. Would you give me an example? Could you explain that further?) was written down to help guide the interviews and provide further insight into some of the themes.

All interviews were recorded and key data from the interviews was summarized within the next few days of the interview to make sure that a more thorough vision of common themes and possible data saturation could be established.

3.2 DESCRIPTION OF EMPIRICAL CONTEXT: RAPAL OY'S PARTNERSHIPS

Rapal Oy is a company specializing in the financial and environmental effects of the built environment. The company produces software for the owners, constructors and users of premises and infrastructure, and their offering also consists of supplementing services and consulting (Rapal Oy, 2013a). Partnerships have been a big influencer on Rapal's growth: Rapal's corporate real estate management solution was developed through several projects in cooperation with leading Finnish organizations from the 1990's onwards. The solution, nowadays bringing about a major share of Rapal's income, has been an appealing product for many large firms and, especially the Finnish Governments' real estate management company called Senate Properties. Through time, this cooperation developed into a partnership resulting in a partnership deal in 2010. The Senate Properties was to distribute the product to its customers (the Finnish state's governmental bureaus and ministries, represented by two interviewees in the empirical research). The deal brought more customers to both Rapal and the Senate properties and the relationship since then has developed into a deep and mutually beneficial strategic partnership. The Senate Properties, the much larger company in the partnership, uses the tools and services of Rapal to complement its own offering and producing a more complete service to its customers. (Rapal Oy, 2013b)

In addition to the partnership with Senate Properties, Rapal has made efforts into developing strategic partnerships with for example management consultants, real estate service providers and other software companies. These organizations are involved in this research, but will not be named because of agreements between Rapal and the companies in question. These new cooperation efforts with other partners are a more recent form of organizational development for Rapal, compared to the rather long-term, established partnership with Senate Properties. In this thesis, learning from these different kinds of partnerships is attempted.

3.3 DISSEMINATION OF RESEARCH FINDINGS

The recordings of the interviews were listened to shortly after the interview and transcribed to help the researcher gather and analyze the results theme by theme. After transcribing, the data and results from each interview was combined and analyzed from the standpoint of each of the seven themes. Each of the 10 interviewees was given a letter between A-J, to identify and keep track of the person in question.

Table 3 - List of interviewees.

ID	Title	Company	Relation to Rapal and level of insight into partnerships
A.	Director	Rapal	Long history and familiar with all Rapal partnerships.
B.	Director	Rapal	Familiar with the Senate partnership at a detailed level.
C.	Director	Rapal	New to the Senate partnership but familiar with other partnerships of Rapal.
D.	Director	Senate Properties	New to Rapal partnership but long history.
E.	Director	Senate Properties	Familiar with Rapal partnership.
F.	Director	Senate Properties	Semi-familiar with the Rapal partnership and strategy.
G.	Representative	Ministry of Finance	Not familiar with the Senate partnership but aware of the motives and drivers for it.
H.	Representative	Finnish Tax Administration	End customer of the Senate partnerships' offering.
I.	Representative	Another Rapal partner	Familiar with the partnership.
J.	Representative	Another Rapal partner (same as I.)	Decision-maker familiar with the partnership on a strategic level.

4 RESULTS

In this section, the in-depth interviews are analyzed and the results are brought forward in the form of a comparison between the responses of the interviewees to each theme and question. Also, any additional issues that the interviewees considered important are brought forward.

4.1 INTERVIEW RESULTS BY THEME

4.1.1 Fit of Rapal offering to the partnering firm and reasons to enter strategic partnership

The nature of the strategic partnership between Rapal and Senate properties has evolved with time. After the deal of 2010 with Senate Properties, Rapal has become more of a software supplier. Interviewee A said that this development was beneficial to Rapal, because the partnership still provided steady income for Rapal and part of the revenue could be used to develop products and to ensure customer satisfaction. Interviewee C said that because of this, the partnership is still extremely important for Rapal. From the other side of the partnership, interviewee D said that the partnership with Rapal was very important, not only to Senate Properties' customers, but also as a part of the company's whole offering. In order to produce the service as promised to the customer, Rapal's input is vital. Interviewee D added that more efforts have to be made to prove to the customer the added value of the service.

According to interviewees A, B and C, Rapal becoming more of a supplier was a partly a negative development. Interviewee A said that Senate Properties could have a lot more to learn and gain from the partnership, and that Rapal's skills and knowledge are not utilized as well as they could be. Interviewee C added that Senate Properties' management needs to be more united in order to truly establish the solution as part of their services. Some of the services that Senate Properties provides to its customers are services into which Rapal could add much more value to.

Interviewee D said that while the company's role changed, Senate Properties' management do understand the importance of being an expert service provider and that the company needs to be more proactive in providing services to the end customer. If not, the value added that is pursued through the Rapal partnership is not realized at the end customer level. The change in the scope of Senate Properties' offering and adjusting the partnership accordingly is a challenge. Interviewees E and F said that Senate Properties offers its clients various complementing services to the Rapal solution, but that the resources are small and that they don't utilize potential synergies between the services. Additionally these complementing services are executed on a smaller scale, project by project. The goal should always be to offer a more comprehensive service package, but interviewee F said that there is still a long way to go.

In another more recent partnership, the partner wanted Rapal's solution and services to be offered as a part of their own consulting services. Interviewee J said that Rapal's services, solutions and customer contacts complemented their company well. Additionally, when establishing the relationship, both companies had a mutual positive attitude towards the partnership and that a common wavelength was found quickly. Rapal would get more clients through the partnership while the partnering company would be able to complement their service package with Rapal's offering. Interviewee I from the partner company said that they really needed the expertise of Rapal for certain customer projects.

4.1.2 Adding value in strategic partnerships

All interviewees agreed that key personnel have a very important role in making partnerships successful. Interviewees A, F and G said that key personnel, including account managers, operational staff and top management, are the ones that add value to the partnership every day by actively engaging in interorganizational activities. Interviewee B agreed and added that having key personnel and top management support throughought the life span of the partnership increases trust and loyalty and also makes the partnership relatively agile in making decisions. Also contract negotiations are an example of activities that, when successful, lead to more trust and commitment.

Representing the Tax Administration and thereby the end customer of the Rapal – Senate Properties partnership, interviewee H added that the person responsible at the customer has a key role in driving the use of the service at the customer end. Interviewee H said that the role of Senate Properties in supporting the customer is very important, especially in making long-term plans and decisions.

Interviewees D and F stressed that the CEOs of both partnering companies need to support the project one hundred percent. Also, managers need to be flexible enough and commit the needed resources to the partnership. Interviewee E said that Senate Properties' organization providing the services to the customers is especially important, while they are the direct link and contact to the end customer. Preserving this link is important for the whole partnership. Interviewee G representing the Ministry of Finance thought this direct link is most important. If the account and project managers from Senate Properties aren't active, the benefits from the partnership aren't conveyed to the end customer. Interviewee G also hoped that the customers of the partnership's offering would be active and responsible in using the services. This way, customers within the same network could share experiences and learn from each other. Interviewee G continued that the role of Senate Properties is absolutely important in sharing best practices among the customers. Interviewee H agreed very strongly and hoped for more input from Senate Properties in this aspect. Without such support from the service provider, the data and use of the solution might deteriorate at the customer, where the actual users are.

The connections and background of the key personnel is also important. Interviewee C doubted that one of the key persons of another more recent Rapal partnership had the right kind of personal connections to the customers and networks that Rapal was interested in. Interviewee A said that focusing on understanding the value-adding activities and what brings value to the end customer is important for Rapal and that this adds value to all stakeholders. Interviewee F pointed out that offering more comprehensive services would add more value to both Senate Properties and to its customers. But to achieve this, there is a need to develop the solution together with Rapal, so that the tools would support the new services better. Interviewee F added that the current solution is a good start, gathering the initial data and analyzing it, but that there is a need for new tools to take the analysis further.

Interviewee F said that while the partnership with Rapal became more complex around 2010, the joint development needs and efforts have made the relationship stronger between Senate Properties and Rapal. But at the same time, the partners committed to delivering customers with the promised solution, to reach common goals and therefore sharing the risk of not being able to deliver. Interviewee F admitted that Senate Properties has a number of partnerships, but that the partnership with Rapal is the only one which is close enough to or resembles a strategic alliance or partnership. Interviewee F added that Rapal has experience from partnerships in general and is therefore bringing added value to the partnership through experience. Interviewee F later prompted that Rapal brings real added value to the partnership by having also other than governmental customers, including skills and knowledge about private companies, which Senate Properties doesn’t have. This fact itself is something that works as a glue between the partners.

Interviewee D said that some customers use the software service in a very narrow way, resulting in the value not being entirely clear to the customer. According to interviewee D, this is a risk for both Rapal and Senate Properties and that the offering for these so called casual or light users might have to be reconsidered. Interviewee G agreed and added that there might be a need for this kind of light version or other variations of the solution, depending on the need of the customer.

Interviewee A said that a good way of adding value in partnerships is to have regular meetings with project and steering groups. Furthermore, joint workshops have been held where both partners explain their product and service strategies and share their vision and plans for the future. This kind of open attitude towards developing the partnership is important. Interviewee D said that joint development of the service has been very important. Combining visions and customer insight would ensure that the partnership is on the right track. Interviewees D and F also saw it necessary for both partners to be flexible in terms of committing to achieving mutual goals. Appropriate incentives are also needed so that, beyond the direct revenue from the partnership, everyone feels they get what they deserve.

Regarding the direct financial benefits of the partnership between Rapal and Senate Properties, Interviewee A said that Rapal's solution brings easily 50 million euros of savings annually to the government. However, proving these savings is not easy because business case calculations need to include all the customers of the partnership. Also, the service fee pricing for Rapal's solution is partly based on the size of the real estate portfolio of the client. This means that any real estate cost savings made by consolidating or letting go of some properties, decreases the portfolio and the total price of the solution. This presents a risk for both partners while they are sharing the revenue. Interviewee B said that it had been discussed and it was decided that the partners would share the risk of reduced cash flow. Interviewee D said that some clients disapprove of the pricing model and that tightening it would be difficult, adding that it might cause tension between the partners.

4.1.3 Possible common product and service development efforts

Interviewee D said that the Senate Properties needs to commit more resources to working directly with the customer and therefore to better deliver the service. This way, the company may gain more insight and have a valuable input to developing Rapal's solution. G hoped that Rapal's solution would be flexible also in the future and that it would continue to be innovative and be developed organically by the Senate Properties and Rapal. Interviewee G pointed out that also other options should be considered and that thinking out of the box or in a broader perspective was necessary in order to develop the offering.

Interviewee A said that the amount of customers of the partnership enables the partnering companies to continuously develop the solution to better fit the needs of their customers. For example, the Finnish Tax Administration has been one of the most active clients using the solution of the partnership. Interviewee G from the Ministry of Finance said that the solution needs to be working according to set standards, but at the same time be flexible enough to suit the special needs of different customers. Interviewee G added that service processes need to be designed together with the service provider, to ensure efficient use of the solution.

Interviewee C said that many of the current product's features were developed in the early stages of the partnership and together with some of the first customers, which are considered as forerunners. Interviewee D agreed that developing the solution together with Rapal is important. There needs to be a level of information that is standardized among all customers, but it has to leave some room for customer specific data. This enables effective steering of portfolio level data while still providing the customer with some options.

4.1.4 Organizing for the partnership and evolution of the partnership

According to interviewee A, when organizing internally for partnerships, it is important to have some kind of alliance function that manages the alliances, maintains the communication with the partner, provides partner support and makes sure that common goals are met. Experiences from the more recent Rapal partnerships have been positive partly due to a dedicated alliance team with participants from both companies. Interviewee C agreed and continued that this partnership was very structured from the beginning, roles were clear and that there was mutual understanding of the goals of the partnership. Workshops were organized, contracts were created together and both companies saw it as an opportunity to learn. Although this was the slower way of establishing a partnership, things worked well from the start. This was also a good way for the firms to commit the people to the joint effort. Interviewee C added that writing contracts is easy, but that agreeing on resources and responsibilities is much more challenging.

Interviewee B said that in these kind of partnerships, the firm needs to make sure that the alliance function does not do parallel work with the rest of the organization. For example, a key question for an IT-service firm is whether to have a dedicated alliance support team or simply to use the same resources as with direct customers. Interviewee C said that it is important to have different people involved so that knowledge and competencies in managing partnerships would not depend on just a few people in the firm. It was seen as a positive thing that different key personnel of the firm would participate in various tasks regarding the partnership. This way, best practices are accumulated in the firm.

Interviewee D said that Senate Properties does not have resources to commit to e.g. implementation projects of the IT-solution, which has been left for Rapal to do. In implementation projects, the customer's role is significant and if the project fails in some way, there is a large risk for Senate Properties, since the company is still responsible for delivering the service. Interviewee B also pointed out that there is a risk being the supplier of an IT-product through a partnership. The success of the implementation of the product depends on the end customer's capability to provide the correct initial data. If it is not, deciding who is responsible for the additional work is a challenge. Also the general competence of the end customer is sometimes a challenge, while there might not be a single person who could take on the responsibility of such a project.

Interviewee A said that the message about the joint offering needs to be the same, coming from both partners. If customers get mixed messages, the partnership and joint offering is not credible. But the ways in which customers are managed may differ; both partners may still have their own practices or ways of doing things. Not everything needs to be unified or integrated. Also, training the partner to understand and communicate the offering of the firm ensures that the message is clearly understood also by the partner's customers.

In another recent partnership effort, Rapal and the partner wanted to offer joint consultancy services, but the partner was not so eager to committing resources to the partnership. Also, the main responsibility of managing customer projects was with the partner. A representative of that company, interviewee I, admitted that resources were the biggest challenge for them and that resources could not be committed before any new projects were received, which left Rapal a bit alone in bringing in customers. Interviewee B believed that getting the first customers through the partnership would help in establishing the roles and responsibilities in this partnership. The disappointment though, has been that the customer base of this partnership is very thin. Interviewee C thought commitment and trust was an issue, because there never was much support from the partner's top management in this case.

4.1.5 Values, norms and practices in the partnership

Interviewee C said that roles and responsibilities have to be clear from the start of a partnership. At the same time, interviewee C doubted the motivation of partners to fulfil their responsibilities in some cases. Both interviewees B and C said that there need to be established processes for supplying products and services as well as practices for dealing with customers. Interviewees G and H agreed that processes need to be designed together with the customer to ensure that the solution fits into the customer's other operations. Interviewee H added that this was not always the case in implementing the solution. Additionally, users of the solution need to be properly trained and processes and best practices need to be documented.

Interviewee C continued that it was important to ensure the correct practices and ways of doing things in partnerships, so that the brand would not suffer. Also, when the partner provides the products of the firm to its own customers, there is a risk that a part of the added value of the product gets lost. One solution to this is to provide the partner with a productized service package including processes and best practices. Interviewee B added that creating this package together with the partner is important for the idea to work, especially for large partnerships.

Interviewee A said that both partners need to be open to developing the partnership. For example, when the partnership evidently changes in time, both firms need to adapt to the new situation. Interviewee C doubted that such a partnership would work where one firm was fast, agile and flexible and the other was slow, rigid and bureaucratic in making decisions.

About the partner organization's culture, interviewee C said that Rapal's internationalization through partnerships also depends much on understanding global markets and foreign cultures. Even though Rapal's offering is world class, partnerships are very important for a smaller company, in order to gain more credibility and more visibility in global markets.

4.1.6 Trust and expectations in partnerships

Interviewee A said that the relationship with Senate Properties could develop so far because of the already tight social ties, long history together and mutual trust, enabling the companies to negotiate a real partnership deal. According to interviewee A, the expectations of the companies towards the partnership guided this development. Interviewee D said that he expects the service to be developed further, and now that most of Senate Properties' customers are using the service, continually developing and raising quality standards should be prioritized. Interviewee B said that he expects more product development efforts from Senate Properties, especially insight about the market, future needs of the customers as well as input into the development of the solution. Interviewee B feels that, through the partnership deal in 2010, Rapal was pushed further away from the customer interface and therefore lost the direct touch with the customers.

Interviewee F from Senate Properties explained that while the relationship with Rapal has been close for many years, there is a possibility that either company would become more agile or faster moving, heading in another direction. Interviewee F added that Senate Properties' risk is that the company is not agile enough and does not recognize the speed of the development of the market. Also, the more the companies would deepen the relationship, the less alert they would be about market developments and about what is happening outside the partnership. Therefore, from the Senate Properties' perspective, Rapal's internationalization is generally seen as a positive thing, but at the same time there is a risk for Senate Properties that Rapal's skills and knowledge would expand and that the company would take more risks. In this aspect, the resilience and financial soundness of the company is an issue.

Interviewees D and F said that the pricing model of the joint offering had always caused some tension in the partnership. All interviewees from both Rapal and Senate Properties still pointed out that negotiations were always held in good spirit and that mutually satisfying solutions were always found. Interviewee C continued that the withdrawn personality of the responsible manager from one of Rapal's partners resulted in trust always being an issue. Interviewee C added that in these kinds of situations, the risk is always larger for the smaller company, in this case Rapal. Additionally, differences of opinion among top management makes decisions difficult, especially when considering partnerships.

Interviewee J expected Rapal to bring to the partnership a concrete solution, some customer contacts as well as insight into the market and its development. Interviewee C again had more expectations towards partners in general to be more proactive in inviting Rapal to mutually beneficial customer projects. Interviewee J expected the open cooperation with Rapal to continue in mutual customer projects, and that Rapal would continue to develop the solution, keeping it competitive and on the frontline of the market. Interviewee J added that both partners expect added value from the partnership in the long-term, as well as financial benefits.

Interviewee A admitted that a downside to partnerships is that partners may see an opportunity to learn the skills and knowledge of Rapal. In this aspect, Rapal's strategy is to embed the companies' and its personnel's skills and knowledge into software products to be used in consultancy projects and sold to customers. Interviewee J said that if one or both of the partnering companies expanded or started offering competitive services, the partnership would have to be reconsidered. For example, interviewee J said that IT companies sometimes have a tendency to expand their consulting business to include new service offerings.

4.1.7 Drivers for partnership success

Interviewee A said that a true partnership means that both parties complement each other's skills and knowledge and that there cannot be a partnership without common goals and unless both benefit from the mutual business model. Interviewee F said that partnerships are based on reciprocity, both parties benefitting from it and receiving something that they need and cannot do by themselves. Interviewee G thought that the basic setting for a partnership is one where the partners need each other, and that communication between the partners works effortlessly. One of the partners also must have a direct or closer relationship with the customers.

Interviewee A said that trust is important, but only as a prerequisite or requirement, and not as a key success factor. Interviewee B said that trust and openness is very important and that partners are equally motivated and share revenue and goal expectations. An example of a failed partnership with another software company is one where interesting discussions have been going on for several years but neither company has made any efforts. The reasons are not so clear, except for the large amount of preparations and work that partnership would require to be established.

Interviewee I said that trust and honesty are most important for partnership success. Also communications with mutual customers should be carefully planned so that the customer does not feel that their confidential information was not spread out. Interviewee I added that partnership management and coordinating activities is vital. Also top management need to be aware and alert of the situation at all times, and that partnerships need to be maintained also in quiet times. Interviewee J said that if the partnership did not results in any mutual projects fast, the enthusiasm for contributing to the partnership would decrease fast. Also if key personnel working for the partnership changed, it would be a risk for the development of the relationship.

Interviewee J continued that trust and knowing one's partner, doing customer projects together and sharing information about them was important for building the relationship. Roles need to be clear; knowing what adds value to the other partner, what are the strengths that the other partner needs from you and what the partner's value-adding activities are for your own company. Also, thinking in the long-term is important while still being driven and in a hurry to achieve short-term goals. Interviewee C said that common goals, and determining future paths were most important and that partners keep track of goals together and makes decisions accordingly. There also need to be some kind of consensus of what to do if the partnership fails.

The general support from top management is according to interviewee B one the biggest success factors of partnerships. Interviewee J said that commitment from both companies' top management, key personnel engagement and expanding the partnership as planned was important. Also the focus of the mutual business needs to be clear and the products and services must always be developed to be competitive. Interviewee B said that incentives and top management support for sales is important while the partner's sales function may not be motivated to sell another company's products. Interviewee D agreed that the incentives were not effective enough to support all stakeholders to actively work towards the goals of the partnership.

4.2 EVALUATING THE PARTNERSHIP

During the interviews, each interviewee was asked to spontaneously evaluate the partner or service provider that the interviewee had a relationship with. This was done on scale from 1-4. For example, the three Senate Properties interviewees were asked to evaluate Rapal as a partner. The evaluation is not exact; the goal is to have an idea of the general satisfaction level of the interviewee towards the subject in question. The results were then scaled down by the researcher to a scale of 1-4; (1) bad (2) satisfactory, (3) good and (4) excellent.

Table 4 – Cross-evaluation of companies.

Company	Average score of company (1-4)	Explanation
Rapal evaluation of Senate Properties	3	Good
Senate Properties evaluation of Rapal	3.67	Good to excellent
Other interviewees' evaluation of Rapal	3	Good
Rapal evaluation of other companies	2.67	Good
Other interviewees' evaluation of Senate Properties	3	Good

Table 5 – Average evaluation of company as a partner.

Company	Average score of company (1-4)	Explanation
Senate Properties	3	Good
Rapal	3.4	Good to excellent
Other Rapal partner	2.67	Satisfactory to good

5 DISCUSSION

This thesis aimed at understanding how value is created in strategic alliances. Based on the results, an answer to the first research question can be formulated by pointing to the strategic alliance success factors (section 2.1.3) and mirroring the findings with theory on value creation (section 2.2). The second research question is partly answered based on theory. Additionally, the results from the in-depth interviews give some insight into the success factors and practical challenges of the focal firm Rapal and the management of its partnerships.

5.1 THEORETICAL IMPLICATIONS

When a company decides to engage in strategic alliances or partnerships, the initial decision-making process, choosing the partner, preparing and organizing for the partnership is important (section 2.1.3.1). Whether the motivation is about market entry, product- or service-related, competition- or resource- and competence-related, companies should carefully analyze and plan for the partnership according to what they want to achieve (see Table 1 - List of motives for entering into strategic alliances. (based on Varadarajan and Cunningham (1995) and Barringer and Harrison (2000). In this aspect, evaluating not only the potential partners and the possibilities for value creation, also the value network and other stakeholders need to be considered. Understanding the whole value network and how value is created at every step, including how value is perceived at the customer end, helps companies in planning the partnership; what kind of contract and structure is suitable for the partnership, how to organize, communicate and coordinate the partnership (section 2.1.2.2). Furthermore, companies should not forget to utilize their marketing team to evaluate how the new offering created through partnerships should be communicated to customers (section 2.3). By positioning itself for value creation, the company can ensure that it is in a position to add value to the partnership, the network and most importantly, the end customer, leading to sustained competitive advantage (section 2.2.1). From this viewpoint, value creation is enabled by planning and making more informed decisions in the early stages of the alliance, the importance of which should not be disregarded.

Choosing the alliance structure and form of contract, companies may develop safeguards to secure that intangible knowledge and skills are not transferred to the partner, while at the same time obtaining resources and learning from the partner (section 2.1.3.1). The structure of the alliance impacts the learning and knowledge transfer; e.g. a licensing partnership does not include collaborative activities so not much can be learned from the partner. Again, setting clear goals and deciding what to pursue in a partnership affects the outcome.

Although much of what affects the outcome of a partnership can be decided beforehand, everything cannot be planned, there may be some unexpected turns and success may depend on the ability of the companies to learn. Previous alliance experience has a clear effect on the success of partnerships. For learning to happen and for leveraging those experiences, a designated alliance function's role is vital. Most alliance management challenges can be overcome with the help of such a team or function, its roles including the coordination of activities, managing knowledge and cultural differences, increasing external visibility and monitoring and reporting alliance performance. Companies that establish or invest in a dedicated alliance function report higher financial gains and better alliance performance, than companies that do not. Also the competencies of top management may have a great impact, while making decisions regarding the formation or management of alliances affects the direction and behavior of other key personnel. The alliance manager's competency is also an issue. Any successful manager may not be as successful at this job. Managing alliances requires a much wider set of skills and alliance managers should have excellent social skills and be especially good at navigating and using the networks and connections to the company's advantage. (Section 2.1.3.2)

Social factors such as trust, the level of commitment and willingness to cooperate, especially among key personnel and top management, are key success factors when forming the alliance and executing day-to-day operations.

Trust may consist of character-based trust such as integrity, morale, honesty and openness, and of competence-based factors such as trust in the knowledge, business sense, management and social skills of the partner. Trust can be created through status and the reputation as a partner, which depends much on top management and key personnel. Strategic intent also impacts the level of trust in partnerships. If both partners are intent on learning or acquiring the knowledge and skills of the partner, conflicts may arise. Hence, the potential of building trust should also be considered when choosing partners and decisions should be made accordingly. To increase the level of interorganizational trust, firms should share all necessary information with the partner, commit to short- and long-term goals and keep in mind that regular interaction and daily objectives add continuous value to the partnership. (Section 2.1.3.3)

The answer to the first research question is therefore that, to create value in partnerships, companies should analyze, plan and make decisions based on the strategic, managerial and social success factors. These factors set the foundations for a successful partnership. But to ensure value creation, companies also need to analyze the value creation that takes place within the value network. This can be done by using a value network analysis model such as proposed by Peppard and Rylander (2006). By utilizing the marketing function, the company may gain a better understanding of how partnerships may create value for the customers, and thereby make decisions on how to position the firm in a business network. This can be especially useful when entering new or foreign markets, helping the company to find suitable partners for value creation (section 2.3). The second research question of how to identify suitable strategic partners and position the firm for value creation is thereby partly answered. Making such informed decisions would require extensive market and value network analysis, which was not within the scope and aims of this research (see section 5.3 Limitations).

For SMEs, creating value in partnerships means having to commit already tight resources to a partnership that may or may not fail. Engaging in partnerships includes a larger risk, and there is less room for mistakes. Resource scarcity also means that SMEs cannot engage in many simultaneous partnerships and therefore have to be especially adept at learning from and leveraging their partnership experiences (section 2.1.3.2). Another solution for SMEs is utilizing value networks. Especially SMEs may benefit from moving to competing on a network level, creating value in collaboration or by entering into partnerships with other companies (section 1.1). Also, a minimum requirement for SMEs when entering foreign markets is to find a local partner. One very encouraging fact for SMEs is that failure and setbacks are normal, and that resilience, overcoming challenges and learning from mistakes eventually pays back (section 2.1.3.2).

The key success factors of strategic alliances especially for SMEs include emphasizing the potential for value creation with the partner, agreeing on clear and realistic goals, top management support, contributing with firm-specific strengths to the partnership and defining roles and responsibilities. For SMEs to establish a strong foundation for the partnership the strategic intent and decisions, finding the most suitable partners and structuring the partnership are all important. Additionally, social factors are found to be key success factors for SMEs in the same way as for large companies. SMEs tend to underestimate the success factors in strategic alliances and it has been proposed that many companies need a more realistic attitude to be able to improve the management of alliances. Because of the proposed higher partnership risk for SMEs, being aware also of the disadvantages and different challenges in partnerships is therefore important. These include loss of knowledge to competitors, costly delays, failure of the alliance including financial and organizational risks, opportunism from partners and risk of “lock-in”, loss of bargaining power, culture clashes and loss of flexibility. (Section 2.1.3.1)

5.2 PRACTICAL IMPLICATIONS

In this section, a list of recommendations and practical suggestions for companies and managers is presented. Based on the findings of this research, these recommendations should be useful for the focal company Rapal, and for companies entering new markets, planning operations and making decisions on how to organize for value creation in partnerships. The following best practices are hereby suggested for such companies:

- Set clear and realistic goals based on what the company wants to achieve through the partnership; broad objectives will eat up a lot of resources
- Conduct a value network analysis of the pursued market; what activities add value and who creates value to the customer?
- Find a suitable partner based on the desired position in the value-creating network, taking into account operating risk, social factors, fit of joint offering and potential for joint value creation
- Consider different strategies depending on objectives; is the goal to learn from the partnership or to sell licensed products?
- Establish a partnership structure, a contract model, roles and responsibilities that enable value-creating activities with the partner, but guards the intangible knowledge of the company
- Engage in discussions to set mutual goals and ensure that the partner commits the needed resources to the partnership
- Name a competent alliance manager and establish a formal or informal alliance function, depending on the need for flexibility versus structural and contractual control over the partnership
- Make sure that there is regular interaction and communication with the partner’s key personnel, for example through weekly meetings
- Regular interaction does not implicate trust; make sure that there is top management support and mutual commitment on all levels
- Ensure that any partnership experience is leveraged and enable learning in the whole organization, for example by documenting best practices
- If entering a foreign market, always try to find a local partner
- Don’t try to do or achieve everything through one partnership, focus efforts on the most important success factors and execute them well
- Consider also other options; partnerships are not always the answer because roughly half of all partnerships fail

5.3 LIMITATIONS

The study methodology used in this thesis, in-depth interviews with key personnel, has a number of limitations. The first ones pointed out by Boyce and Neale (2006) in their method description are: the method can provide viewpoints prone to bias, can be time-consuming and generalizations can be hard to make. The interviewees can be prone to bias because key personnel may want to justify and point out the achievements of their work rather than the learning points – it is often easier to talk about the positive side of things (Boyce and Neale, 2006). Also, while the researcher was doing the interviews as an assignment from Rapal, the company in the focus of the interviews, the results may have been biased due the interviewees being careful how they formulated their responses. The amount of time needed to conduct the interviews was a known factor in the selection of methods, but the method was still considered most appropriate because of the complex nature of the topic being researched. It might have been even harder to collect reliable data on e.g. perceived trust in the partnership via online surveys. The generalizability of results is considered hard in the method because of the small samples used in the technique (Boyce and Neale, 2006). However, since the interviewees started to repeat similar characteristics in a successful partnership and data thereby indicated signs of *saturation* (Stenius, 2008), this is not considered an issue in the thesis.

A limitation for this study may arise from the fact that a large portion of the relevant literature related to the value in partnerships focuses on the early stages of a strategic partnership, i.e. the formation of partnerships and making strategic decisions (Hamel, 1991; Hoffmann and Schlosser, 2001; Nielsen and Gudergan, 2012). Less value-related literature was found about the management of an alliance or partnership or other later stages in a strategic partnership. This guided the research to focus more on the early stages, and it could well be that relevant value-related suggestions could have been made also for the later stages of the partnership. However, because of time and resource constraints, not all paths could be equally explored and this focus was considered the reasonable thing to do.

The study was successful in determining what value consists of in strategic partnerships, and therefore the first research question can be viewed as answered appropriately. However, the second research question about the identification of suitable partners was not as easy to answer based on the theory and interviews. Although theories on evaluating and identifying suitable partners were partly included in literature on partnerships and value creation (e.g. Kothandaraman and Wilson, 2001; Peppard and Rylander, 2006; Stuart, 1998), the second research question could not be answered comprehensively.

Also, the interviewees seemed to have only limited experience in strategic partnerships and especially in very successful ones. Additionally, only a few different partnerships were discussed in the interviews and all were partnerships of the focal company Rapal. Studying value networks should include a larger number of companies interconnected in different ways (Peppard and Rylander, 2006; Stuart, 1998). Something that could have been helpful to this study but was not done because of time constraints would have been to interview e.g. strategy consultants involved in developing partnering strategies for firms. This would however have meant a different approach from the methodology perspective and could have made the results less comparable.

In answering the first research question, there was also some trouble related to the lack of holistic perspectives on partnerships. For example, Barringer and Harrison (2000) point out that none of the theories about interorganizational relationships are holistic, and that the value-based view may have the advantage of making more holistic observations. This lack of holistic research may have led to simplifications of the value concept and sometimes even misunderstandings of what has been meant by some authors.

5.4 FUTURE RESEARCH SUGGESTIONS

The combination of research on strategic alliances and partnerships with marketing research and theories on value creation should be pursued also in the future. While value can be seen as being created through customer analysis and involvement, the concept of value networks is an especially interesting focus for future research (Lusch et al., 2010). More extensive research on value network analysis including a larger number of companies should be done. This could give insight into the underlying value creation that leads to success for partnerships in increasingly networked and interconnected markets.

6 CONCLUSION

Modern organizations are acting in increasingly competitive markets, trying to beat their competitors by offering better products and services. Strategic partnerships are an especially tempting opportunity for SMEs trying to cope with their tight resources, in hope of getting access to scale benefits and network effects. However, a large number of partnerships fail and companies are not able to create added value for customers. This thesis has explored the different ways in which companies can create value in strategic alliances. Also, the thesis has sought answers to the question of how to identify suitable strategic partners and assure an optimal position in a company's value network.

Much of the success of a strategic alliance is determined from the strategic, managerial and social factors. Realistic and achievable goals for a partnership should be established beforehand, while remaining flexible to make small changes to direction as the firms learn from another and from customers. Results from the thesis suggest that firms should look at partnerships not only from a two-firm level, but regard the alliance from a value network perspective. Alliance management is suggested to be an extremely difficult job that requires a manager with excellent social skills: the manager is in a position to make or break the partnership. Social factors, such as creating and retaining trust are prerequisites for successful alliances.

The research setting was conducted within a Finnish software firm in the real estate industry that had interest in how to best succeed in their strategic partnerships. 10 in-depth interviews with key personnel relating to the firm's partnerships were conducted and a number of best practices for creating value in strategic partnerships were established. Those included for example conducting a value network analysis and making decisions based on it, establishing an alliance team to ensure value creation and building trust. Also, companies and especially SMEs that are new to partnerships should make sure that learning takes place and experiences are accumulated.

The thesis offers valuable insights to managers hoping to generate value from partnering with other firms. Alliance managers should be recruited not only based on previous job performance, but also based on their social skills. Alliance managers should expect their job to be cross-functional and even one surpassing firm levels: oftentimes, the managers' own networks might be useful in the challenging job. The empirical findings from the thesis further stress the need to factor social issues in when managing strategic alliances: the majority of key personnel interviewed viewed mutual trust as the most important determinant of success in strategic alliances.

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APPENDICES

APPENDIX A – INTERVIEW QUESTIONNAIRE

1. **Fit of Rapal offering to the partnering firm and reasons to enter strategic partnership**
    a. What were the motives and drivers for the partnership?
    b. How does Rapal's offering fit to the partner's offering?
2. **Adding value in strategic partnership**
    a. How is value created in the partnership?
    b. Can you estimate the financial value of the partnership to your company?
    c. Which key personnel are important?
    d. How is communication done in the partnership and do think it is working?
    e. Do you have a common strategy in the partnership?
    f. As the customer, do you feel you get value for money? <u>(interviewees G and H)</u>
3. **Possible common product and service development efforts**
    a. What kind of development needs do you see in the future?
    b. Is there a need for offering product and service best practices to customers?
4. **Organizing for the partnership and evolution of the partnership**
    a. How do you see your role in the partnership?
    b. Who is in charge and responsible for the partnership?
    c. How has the partnership developed and why?
    d. What are future requirements for the partnership and how do you prepare for them?
    e. Is there an alliance function that is mainly working for the partnership and what are its tasks?
5. **Values, norms and practices in the partnership**
    a. How important are values, norms and practices in partnerships?
    b. Is there a need for partners to unify their practices in partnerships?
6. **Trust and expectations in partnership**
    a. What do you think the partner expects from you?
    b. What kind of challenges do you see in the future?
    c. Do you feel you can trust the partner company?
7. **Drivers for partnership success**
    a. What do you consider most important in partnerships and why?
    b. What other things do you consider important?